

North Country Community Mental Health

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name North Country Community Mental Health	County Emmet
Audit Date 9/30/05	Opinion Date 2/2/06	Date Accountant Report Submitted to State: 3/16/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

MAR 29 2006

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, in the report of comments and recommendations


LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASL GU).			✓

Certified Public Accountant (Firm Name) Dennis, Gartland & Niergarth			
Street Address 415 Munson Avenue		City Traverse City	State MI
Accountant Signature 		ZIP 49686	Date 3/16/06

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North Country Community Mental Health

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2005

This report offers readers of the North Country Community Mental Health's (the "Authority") financial statements a narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2005. This analysis is provided at the beginning of the audit to facilitate the reader's understanding of the Authority's financial condition. It should not be taken as a replacement for the audit detail, which consists of the financial statements and supplemental information that presents the Authority's revenues and expenditures by program for the Provider Fund, Affiliation Fund and various Internal Service Funds.

Using the Annual Report

This discussion and analysis is intended to serve as an introduction to the financial statements of North Country Community Mental Health. The Authority's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information.

Government-Wide Financial Statements

The government-wide financial statements provide readers with an overview of the Authority's finances. The Statement of Net Assets presents information on the Authority's total assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Authority is improving or declining. The Statement of Activities presents information on how the Authority's net assets changed during the fiscal year.

Fund Financial Statements

A Fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities. Fund financial statements present how services were financed in the short-term, and indicate what remains for future spending. Funds are divided into two categories: governmental and proprietary.

Governmental Fund financial statements focus on current inflows and outflows of financial resources, as well as balances of resources available at year-end for future use. The Governmental Fund financial statements for North Country Community Mental Health identify both the Provider Fund and Affiliation Fund activity and balances. The Governmental Funds Balance Sheet and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance contain reconciliations, to facilitate comparison between the governmental fund and governmental activities reported in the government-wide financial statements.

Proprietary Funds, which in the Authority's case include only Internal Service Funds, are used to account for the financing of services provided by other funds of the entity. The Authority has three Internal Service Funds: the Risk Management Fund; Employee Benefit Fund; and the Building Improvement Fund.

The Risk Management Fund is established to protect the Authority from the inevitable risk occurring in a capitated funding arrangement where demand for service might exceed prepaid revenue. Included in the fund are balances transferred from affiliates Ausable Valley Community Mental Health, Northeast Michigan Community Mental Health, and Northern Michigan Substance Abuse Services. The dollar amount of fund equity as of September 30, 2004 was \$1,889,059. During FY05, additional deposits were made to the Risk Management Fund in the amount of \$870,658. Interest income was also earned in the amount of \$44,506. The dollar amount of fund equity as of September 30, 2005 is \$2,804,223.

The Employee Benefit Fund is used to secure funds necessary to meet future sick and vacation leave payout. The dollar amount of fund equity as of September 30, 2005 is \$0. The total current assets are \$534,845.

The Building Improvement Fund is used to account for the sale of rental services to the General Fund. The fund may be used for future building improvement. The total fund equity as of September 30, 2005 is \$510,380.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Authority as a Whole

North Country Community Mental Health receives the majority of its funding (approximately 90.9%) from two contracts held with the Department of Community Health. The Medicaid Managed Specialty Supports and Services Contract provides funding for mental health and substance abuse services for the Medicaid population for a thirteen county region. The Managed Mental Health Supports and Services Contract provides funding for mental health services for the indigent population for a six county area. During the audit period, North Country Community Mental Health was in the final year of a three-year contracting period.

Fiscal year 2004-05 was the third year that North Country Community Mental Health operated as the lead agency in an Affiliation for Medicaid-funded services. North Country Community Mental Health entered into an agreement under the Intergovernmental Transfers of Functions and Responsibilities Act (P.A. 8, 1967) with Ausable Valley Community Mental Health and Northeast Michigan Community Mental Health in fiscal year 2002-03. Because it holds the contract with the Department of Community Health, North Country Community Mental Health receives all Medicaid revenue for the thirteen county region. Ausable Valley Community Mental Health, Northeast Michigan Community Mental Health, and Northern Michigan Substance Abuse Services hold contracts as service providers with North Country Community Mental Health. North Country Community Mental Health also provides services to its six county primary service area.

Government-Wide Financial Analysis

The Authority's net assets were \$6,029,552 on September 30, 2005 and \$5,137,118 on September 30, 2004. Of this amount, the unrestricted portion was \$2,213,459 on September 30, 2005 and \$2,297,201 on September 30, 2004. Restricted net assets are to be used for a specific purpose and cannot be used to fund day-to-day operations.

	Governmental Activities <u>2003-04</u>	Governmental Activities <u>2004-05</u>
Current assets	\$ 9,215,913	\$ 9,161,424
Capital assets	<u>1,573,123</u>	<u>1,610,949</u>
Total Assets	<u>\$10,789,036</u>	<u>\$10,772,373</u>
Current liabilities	\$ 4,539,713	\$ 4,167,184
Non-current liabilities	<u>1,112,205</u>	<u>575,637</u>
Total Liabilities	<u>\$ 5,651,918</u>	<u>\$ 4,742,821</u>
Net assets		
Invested in capital assets (net of debt)	950,858	1,011,870
Restricted for Risk Management	1,889,059	2,804,223
Unrestricted	<u>2,297,201</u>	<u>2,213,459</u>
Total Net Assets	<u>\$ 5,137,118</u>	<u>\$ 6,029,552</u>

The following table summarizes the change in net assets as of September 30, 2005. Comparison information is given for September 30, 2004.

	Governmental Activities <u>2003-04</u>	Governmental Activities <u>2004-05</u>
Total program revenues	\$53,664,016	\$53,988,739
General purpose revenues	<u>1,055,071</u>	<u>1,110,071</u>
Total revenue	<u>\$54,719,087</u>	<u>\$55,098,810</u>
Health and human service expenses		
Mental illness adult expenses	\$ 7,239,703	\$ 7,997,887
Mental illness child expenses	1,627,399	1,807,536
Developmental disability expenses	14,640,564	14,817,871
Other program service expense	676,796	390,911
Administration	2,123,898	1,830,562
Other expenses	232,162	246,520
Managed care		
Ausable Valley CMH	8,061,044	7,656,255
Northeast Michigan CMH	15,750,174	15,214,894
Northern MI Substance Abuse Services	604,390	668,982
Other contractual providers	1,557,764	1,300,535
QAAP Assessment	0	497,149
Managed care administration	<u>2,178,357</u>	<u>1,777,274</u>
Total Expenses	<u>\$54,692,251</u>	<u>\$54,206,376</u>
Changes in net assets	<u>\$ 26,836</u>	<u>\$ 892,434</u>

Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget two times to take into account changes in revenue and expenditures during the year. The total initial budget was \$27,731,485 for Provider Operations and \$47,917,528 for Affiliation operations. The total final budget was \$27,648,422 for Provider Operations. The total Affiliation budget did not change during the year.

The most significant revenue changes to the provider budget were changes in state formula funding and reimbursements. During FY05 the Department of Community Health revised the state formula fund authorization. Also during FY05, the Department of Community Health froze Adult Benefit Waiver eligibility, resulting in less reimbursement revenue for the Authority. The initial budget included \$5,134,326 in state formula fund revenue and \$866,492 in reimbursement revenue. The final budget included \$5,273,570 in state formula funds and \$593,697 in reimbursement revenue resulting in changes of \$139,244 and (\$272,795) respectively. An approximate increase in earned revenue comprised the remainder of the budget change.

Total expenditures for North Country Community Mental Health Provider Operations were \$363,888 less than budgeted. Staff turnover accounted for \$182,107 of the difference and reduced usage of residential facilities accounted for another \$168,885. The remaining difference was due to under expenditure of various operating line items.

North Country Community Mental Health Provider Operations overspent its Medicaid budget by \$282,220. Affiliates Ausable Valley Community Mental Health and Northeast Michigan Community Mental Health under spent their Medicaid budgets by \$295,927 and \$209,173 respectively. The unspent funds were returned to the Affiliation. The Affiliation deposited an additional \$770,658 into the Risk Management Fund during FY05. The remaining \$71,319 in Medicaid dollars was carry forward into FY06. The carry forward amount included \$21,318 in substance abuse dollars and \$50,001 in mental health dollars.

At the end of FY05, the Department of Community Health passed on a Quality Assurance Assessment (QAAP) to the Affiliation in the amount of \$497,149. This assessment was booked as a liability to the State of Michigan at the end of FY05. To fund the assessment, the Department of Community Health increased the Affiliation's capitation payments by \$503,439. This was booked as a receivable from the State of Michigan at the end of FY05.

Capital Asset and Debt Administration

As of September 30, 2005, the Authority had \$2,678,416 invested in capital assets, including land, buildings, equipment, furniture, and vehicles. The total accumulated depreciation on these assets is \$1,067,467. The total debt related to fixed assets was \$599,079. For comparison purposes, as of September 30, 2004, the Authority had \$2,584,972 invested in capital assets, including land, buildings, equipment, furniture, and vehicles. The total accumulated depreciation on these assets was \$1,011,849. The total debt related to fixed assets was \$622,265.

The most significant capital asset purchases during fiscal year 2004-05 were vehicles, computer software upgrades, and a building to house the peer directed program in Cheboygan. Six high-mileage vehicles were replaced. The Authority has been updating its information systems over the past year in order to increase its ability to manage and transmit information electronically.

Customization of the data collection software implemented in FY04 continued to occur during FY05. The software is used by all affiliates.

Looking Forward to FY06 and Beyond

The Authority's budget for FY06 looks more promising than the previous two fiscal years. In FY06, the Department of Community Health increased Medicaid capitation payments to the Affiliation by 7.6% or \$3.53 million dollars. The Affiliation plans to pass on a 5% increase to its Affiliates to cover unavoidable cost increases. The remainder will be spent on new programming throughout the 13 county region, with the primary focus being children's services, services for the elderly, and alternative day services for persons with developmental disabilities.

It is anticipated that funding for FY07 will continue at FY06 levels.



DENNIS, GARTLAND & NIERGARTH

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Our clients' success - our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors

North Country Community Mental Health

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **North Country Community Mental Health** (the "Authority") as of and for the year ended September 30, 2005, which collectively comprise the Authority's financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Authority as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2006 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The management's discussion and analysis and budgetary comparison information on pages i - v and 26 - 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Dennis, Gartland & Niergarth

February 2, 2006



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
North Country Community Mental Health

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *North Country Community Mental Health*, (the "Authority"), as of and for the year ended September 30, 2005, which collectively comprise the Authority's financial statements and have issued our report thereon dated February 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

February 2, 2006
Member of



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North Country Community Mental Health

STATEMENT OF NET ASSETS

September 30, 2005

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 7,187,738
Investments	543,174
Accounts receivable	313,631
Due from member counties	99,915
Due from providers	686,235
Prepaid expenses	<u>330,731</u>
Total current assets	9,161,424
Non-current assets	
Capital assets, net of accumulated depreciation	<u>1,610,949</u>
Total assets	<u><u>\$ 10,772,373</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 2,510,668
Accrued liabilities	166,954
Due to State	474,926
Due to providers	418
Deposits	4,681
Deferred revenue	451,250
Accrued annual leave	534,845
Notes payable	<u>23,442</u>
Total current liabilities	4,167,184
Non-current liabilities	
Notes payable	<u>575,637</u>
Total liabilities	<u><u>4,742,821</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	1,011,870
Restricted	
Risk management	2,804,223
Unrestricted	<u>2,213,459</u>
Total net assets	<u><u>6,029,552</u></u>
Total liabilities and net assets	<u><u>\$ 10,772,373</u></u>

The accompanying notes are an integral part of these financial statements.

North Country Community Mental Health

STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

Functions/Program	Expenses	Program Revenues		Net (Expense)
		Charges For Services	Operating Grants and Contributions	Revenue and Changes Net Assets
				Governmental Activities
Governmental Activities - Mental Health Services				
Developmentally Disabled				
Residential	\$ 9,251,399	\$ 156,314	\$ 9,126,287	\$ 31,202
Outpatient	893,475	8,112	847,257	(38,106)
Partial Day	3,169,573	2,899	3,025,178	(141,496)
Case Management	1,503,424	5,140	1,436,776	(61,508)
Mentally Ill - Adult				
State Inpatient	887,728	-	765,207	(122,521)
Community Inpatient	649,571	118,449	468,726	(62,396)
Residential	1,462,822	36,110	1,460,744	34,032
Outpatient	2,334,864	219,436	1,973,678	(141,750)
Partial Day	885,511	59,736	787,572	(38,203)
Case Management	778,927	22,080	711,121	(45,726)
Consumer Operated	176,898	-	102,824	(74,074)
Community Treatment	821,566	83,844	696,428	(41,294)
Mentally Ill - Child				
Residential	208,614	5,160	203,428	(26)
Outpatient	1,520,280	159,648	1,308,490	(52,142)
Case Management	78,642	-	75,691	(2,951)
Other Services	390,911	74,199	278,736	(37,976)
Board Administration	1,830,562	37,424	1,829,316	36,178
Risk Fund Contribution	-	-	100,000	100,000
Managed Care Operations				
Ausable Valley CMH	7,656,255	-	7,656,255	-
Northeast Michigan CMH	15,214,894	-	15,214,894	-
NMSAS	668,982	-	668,982	-
Other Contractual Providers	1,300,535	-	1,300,535	-
QAAP Assessment	497,149	-	497,149	-
Risk Fund Contribution	-	-	770,658	770,658
General and Administrative	1,777,274	482,402	1,211,854	(83,018)
Housing Services	73,068	-	-	(73,068)
Depreciation - unallocated	173,452	-	-	(173,452)
Total governmental activities	<u>\$ 54,206,376</u>	<u>\$ 1,470,953</u>	<u>\$ 52,517,786</u>	<u>(217,637)</u>
General purpose revenues				
Appropriations from member counties				657,264
Investment and other				200,657
Other local miscellaneous				<u>252,150</u>
Total general purpose revenues				<u>1,110,071</u>
Change in net assets				
				892,434
Net assets, beginning of year				
				<u>5,137,118</u>
Net assets, end of year				
			\$	<u>6,029,552</u>

The accompanying notes are an integral part of these financial statements.

North Country Community Mental Health

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2005

	Provider Fund	Affiliation Fund	Total
ASSETS			
Cash and cash equivalents	\$ 4,232,934	\$ 506,599	\$ 4,739,533
Investments	543,174	-	543,174
Accounts receivable	313,080	551	313,631
Due from State	-	441,937	441,937
Due from member counties	99,915	-	99,915
Due from providers	-	686,235	686,235
Due from other funds	365,103	13,855	378,958
Prepaid expenditures	316,740	13,991	330,731
Total assets	<u>\$ 5,870,946</u>	<u>\$ 1,663,168</u>	<u>\$ 7,534,114</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,855,741	\$ 654,927	\$ 2,510,668
Accrued liabilities	152,356	14,598	166,954
Due to State	916,863	-	916,863
Due to other funds	247,642	1,049,415	1,297,057
Due to providers	-	418	418
Deposits	4,681	-	4,681
Deferred revenue	372,063	79,187	451,250
Total liabilities	<u>3,549,346</u>	<u>1,798,545</u>	<u>5,347,891</u>
FUND BALANCES			
Unreserved	<u>2,321,600</u>	<u>(135,377)</u>	2,186,223
Total liabilities and fund balances	<u>\$ 5,870,946</u>	<u>\$ 1,663,168</u>	

Reconciliation of Governmental Fund Balances to Government-Wide Net Assets

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported as
assets in governmental funds. The cost of the assets
is \$1,471,646 and the accumulated depreciation is
\$942,920.

528,726

Internal service funds are used by management to charge
the costs of certain activities, such as building rentals
and risk management, to individual funds. The assets
and liabilities of the internal service funds are
included in governmental activities in the statement of
net assets.

3,314,603

Total net assets - governmental activities

\$ 6,029,552

The accompanying notes are an integral part of these financial statements.

-7-

North Country Community Mental Health

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2005

	Provider Fund	Affiliation Fund	Total
Revenues			
Department funding	\$ 25,020,807	\$ 47,531,652	\$ 72,552,459
Local match	1,022,052	819,584	1,841,636
Reimbursements	689,549	-	689,549
Earned revenue	246,649	-	246,649
Grants	229,004	-	229,004
Other revenue	-	221,232	221,232
	<u>27,208,061</u>	<u>48,572,468</u>	<u>75,780,529</u>
Total revenues			
Expenditures			
Developmentally Disabled			
Residential	9,282,599	-	9,282,599
Outpatient	893,475	-	893,475
Partial Day	3,169,573	-	3,169,573
Case Management	1,503,424	-	1,503,424
Mentally Ill - Adult			
State Inpatient	887,728	-	887,728
Community Inpatient	649,571	-	649,571
Residential	1,503,160	-	1,503,160
Outpatient	2,335,063	-	2,335,063
Partial Day	899,413	-	899,413
Case Management	784,727	-	784,727
Consumer Operated	176,898	-	176,898
Assertive Community Treatment	827,968	-	827,968
Mentally Ill - Child			
Residential	208,614	-	208,614
Outpatient	1,520,280	-	1,520,280
Case Management	78,642	-	78,642
Other Services	390,911	-	390,911
Board Administration	2,172,488	-	2,172,488
Managed Care Operations	-	48,612,765	48,612,765
	<u>27,284,534</u>	<u>48,612,765</u>	<u>75,897,299</u>
Total expenditures			
REVENUES UNDER EXPENDITURES	(76,473)	(40,297)	(116,770)
Fund balance, beginning of year	<u>2,398,073</u>	<u>(95,080)</u>	<u>2,302,993</u>
Fund balance, end of year	<u>\$ 2,321,600</u>	<u>\$ (135,377)</u>	<u>\$ 2,186,223</u>

The accompanying notes are an integral part of these financial statements.

North Country Community Mental Health

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2005

Total Net Change in Fund Balances - Governmental Funds \$ (116,770)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceeds depreciation during the year.

Capital outlays	\$ 254,832	
Undeprciable balance of disposals	(14,609)	
Depreciation expense	<u>(173,452)</u>	66,771

Internal service funds are used by management to charge the costs of certain activities, such as building rentals and risk management, to individual funds. The net income of the internal service funds is reported with governmental activities.

942,433

Changes in Net Assets of Governmental Activities \$ 892,434

North Country Community Mental Health

BALANCE SHEET - PROPRIETARY FUNDS

September 30, 2005

	Internal Service Funds (Non-Major)			Total
	Risk Management Fund	Employee Benefit Fund	Building Improvement Fund	
ASSETS				
Cash and cash equivalents	\$ 1,933,565	\$ 482,954	\$ 31,686	\$ 2,448,205
Due from other funds	<u>870,658</u>	<u>51,891</u>	<u>100,000</u>	<u>1,022,549</u>
Total current assets	2,804,223	534,845	131,686	3,470,754
Buildings, net of depreciation	<u>-</u>	<u>-</u>	<u>1,082,223</u>	<u>1,082,223</u>
Total assets	<u>\$ 2,804,223</u>	<u>\$ 534,845</u>	<u>\$ 1,213,909</u>	<u>\$ 4,552,977</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Due to other funds	\$ -	\$ -	\$ 104,450	\$ 104,450
Accrued annual leave	-	534,845	-	534,845
Notes payable	<u>-</u>	<u>-</u>	<u>23,442</u>	<u>23,442</u>
Total current liabilities	-	534,845	127,892	662,737
Notes payable	<u>-</u>	<u>-</u>	<u>575,637</u>	<u>575,637</u>
Total liabilities	<u>-</u>	<u>534,845</u>	<u>703,529</u>	<u>1,238,374</u>
FUND EQUITY				
Contributed capital	-	-	448,923	448,923
Retained earnings				
Unrestricted		-	61,457	61,457
Restricted for				
Managed care	2,420,786	-	-	2,420,786
General funds	<u>383,437</u>	<u>-</u>	<u>-</u>	<u>383,437</u>
Total fund equity	<u>2,804,223</u>	<u>-</u>	<u>510,380</u>	<u>3,314,603</u>
Total liabilities and fund equity	<u>\$ 2,804,223</u>	<u>\$ 534,845</u>	<u>\$ 1,213,909</u>	<u>\$ 4,552,977</u>

The accompanying notes are an integral part of these financial statements.

North Country Community Mental Health

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS - PROPRIETARY FUNDS

For the Year Ended September 30, 2005

	Internal Service Funds (Non-Major)			
	Risk Management Fund	Employee Benefit Fund	Building Improvement Fund	Total
Revenues				
Charges for service	\$ 870,658	\$ 21,662	\$ 99,545	\$ 991,865
Interest income	44,506	-	793	45,299
Total revenues	915,164	21,662	100,338	1,037,164
Expenditures				
Employee benefits	-	21,662	-	21,662
Repairs and maintenance	-	-	5,159	5,159
Depreciation	-	-	44,526	44,526
Interest expense	-	-	23,384	23,384
Total expenditures	-	21,662	73,069	94,731
NET INCOME	915,164	-	27,269	942,433
Retained earnings, beginning of year	1,889,059	-	34,188	1,923,247
Retained earnings, end of year	<u>\$ 2,804,223</u>	<u>\$ -</u>	<u>\$ 61,457</u>	<u>\$ 2,865,680</u>

The accompanying notes are an integral part of these financial statements.

North Country Community Mental Health

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended September 30, 2005

	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ 942,433
Adjustments to reconcile net operating income to cash provided by operating activities	
Depreciation	44,526
Increase in due from other funds	(838,988)
Increase in accrued annual leave	21,662
Decrease in due to other funds	<u>(153,250)</u>
Net cash provided from operating activities	<u>16,383</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(15,581)
Net borrowings (repayments) under loan agreements	<u>(23,186)</u>
Net cash used from capital financing activities	<u>(38,767)</u>
NET DECREASE IN CASH	(22,384)
Cash, beginning of year	<u>2,470,589</u>
Cash, end of year	<u><u>\$ 2,448,205</u></u>

The accompanying notes are an integral part of these financial statements.

North Country Community Mental Health

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

North Country Community Mental Health (the "Authority") was created on April 1, 2003 as an independent mental health authority by the Counties of Antrim, Charlevoix, Cheboygan, Emmet, Kalkaska and Otsego, under Public Act 290, PA 1995. The Authority is the survivor, resulting from the merger of Northern Michigan Community Mental Health Services Board and Antrim Kalkaska Community Mental Health Services Board. The Authority is governed by an 18 member board. The operations of the Authority are characterized by two distinct functions as follows:

Conduit of State Medicaid Funds

The Authority is the Preferred Health Provider ("PHP"), representing three community mental health agencies servicing 13 counties in Northern Michigan, the "Northern Affiliation." As the PHP, the Authority negotiates with the Michigan Department of Community Health ("MDCH") for the Northern Affiliation's Medicaid contract. The PHP then negotiates contracts with its affiliated providers for distribution of those funds.

Provider of Mental Health Services

As a provider of mental health services, the Authority's purpose and power is to carry out the provisions of the Michigan Mental Health Code in the six-county area it services. Funding for State Medicaid revenue flows from the contract described above. For non-Medicaid funds, the Authority and each member of the Northern Affiliation individually contract with MDCH and other funding sources.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to local governments in the United States.

The accounting and reporting framework and the more significant accounting principles and practices of the Authority are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Authority's activities.

Reporting Entity

The Authority's financial statements include the accounts of all Authority operations. In evaluating the Authority as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Authority may or may not be financially accountable and, as such, be includable within the Authority's financial statements. In accordance with GASB Statement No. 14, the Authority is financially accountable if it appoints a voting majority of the potential component unit's governing board and (1) it is able to impose its will on the organization, or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Authority. Additionally, the Authority is required to consider other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete.

Based on this criteria, management has not identified any potential component units requiring consideration for inclusion in the Authority's financial statements.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the Authority as a whole. Individual funds are not displayed, but the statements distinguish governmental and business-like (if any) activities generally supported by the Authority's general revenues.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Authority's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances for the Authority's governmental funds and the balance sheet, statement of revenues, expenses and changes in retained earnings and the statement of cash flows for the Authority's proprietary funds are presented after the government-wide statements. These fund financial statements display information about major funds for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures. The Authority's only proprietary funds are internal service funds used in governmental activities. Internal service funds are not major funds but are shown individually to satisfy reporting requirements of the Michigan Department of Treasury.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Authority are prepared in accordance with *Generally Accepted Accounting Principles* ("GAAP"). The Authority applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Authority does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met.

All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances are considered a measure of "available spendable resources." Governmental fund operating statements present increases and decreases in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule are: (1) accumulated unpaid vacation, sick pay and other employee amounts which are not payable from available resources and; (2) principal and interest on general long-term debt which is recognized when due.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the Authority's general revenues.

The Authority's most significant program revenues are Medicaid, other State grants and charges for services.

Revenue Recognition

A significant portion of funding is received through the State of Michigan under managed care contracts. The contracts are prepaid and the Authority is responsible for management of all State and Federal funds they receive via their contracts. The Authority has negotiated or assumed two contracts with the State covering the period from October 1, 2004 through September 30, 2005. One contract covers Medicaid funds and the other covers State General Funds. Both of the contracts are partial-risk contracts with the Authority and the State of Michigan Department of Community Health sharing costs for services over an established threshold. The Authority's risk is limited to all of the first 5% of costs in excess of the threshold and half of the second 5% of costs in excess of the threshold.

NOTES TO FINANCIAL STATEMENTS - Continued

Additionally, the Authority is entitled to reinvest cost savings of up to 5% of the threshold to be used as follows:

Medicaid contract savings are to be used for qualifying Medicaid reinvestment expenditures.

General Fund savings are carried forward to the subsequent fiscal year.

Cost settlement occurs as of September 30, as necessary, to determine expenditures for the risk sharing methodology. Savings, if any, are recorded as deferred revenue until utilized as described above.

Medicaid Contract

The Authority has contracted with the State of Michigan for Medicaid funds for all of its affiliated providers. Payment under the contract is on a capitated basis. Payment to the Authority is on a per-eligible Medicaid recipient, per month basis. Adjustments for the fluctuations in the Medicaid population are made monthly. The Authority recognizes all payments received under this contract as revenue in its Affiliation Fund. The Provider Fund recognizes reimbursement revenue as it provides services funded by the Affiliation Fund.

General Fund Contract

The Authority's General Fund contract with the State of Michigan is based on historical funding levels. Revenue is recognized in the Provider Fund upon incurring qualifying expenditures.

Fund Types and Major Funds

Activities in Major Funds

The Provider Fund is the main operating fund of the Authority. It is used to account for the proceeds of revenue sources legally restricted for mental health activities.

The Affiliation Fund negotiates with the Michigan Department of Community Health for the Northern Affiliation's Medicaid contract. It is used to account for the receipt and distributions of State contracted Medicaid revenues on behalf of the Northern Affiliation's members.

Activities in Internal Service Funds

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the Authority or to other governments on a cost-reimbursement basis.

The Risk Management Fund is used to finance exposure to risk under managed care contracts.

The Employee Benefit Fund is used to finance employees' annual leave benefits accrued but unpaid.

The Building Improvement Fund is used to account for the acquisition of properties that are leased to the Provider Fund and made available to North Country Community Mental Health clients.

Cash Equivalents

For purposes of the balance sheet classification, the Authority considers all highly-liquid debt instruments with maturity of three months or less to be a cash equivalent.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. The Authority generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

	<u>Years</u>
Buildings and improvements	8 - 25
Furniture and equipment	3 - 10
Vehicles	4

Budgets and Budgetary Accounting

A budget is adopted each year for the governmental funds based on an appropriated amount. The budgets are prepared on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. Budgetary control over programs funded under grants and contracts are maintained on the basis of the provisions contained in the grants and contracts.

Fund Equity

The proprietary funds financial statements report restricted fund equity for amounts not appropriable for expenditures or legally segregated for a specific future use. Designations of fund balances represent management's plans for future use of financial resources.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Initial costs settlements under managed care contracts require substantial use of judgment and are subject to review by the Michigan Department of Community Health. Accordingly, the reported amounts of revenue, deferred revenue and due from/to the State could change.

NOTE B - BUDGETARY POLICY AND PRACTICE

The Authority follows the provisions of P.A. 621 of 1978 (the Uniform Budgeting and Accounting Act) (the "Act") in the adoption and execution of its budget. The Act requires amounts be appropriated in the Provider and Affiliation Funds before expenditures may be incurred. Appropriations must be amended to allow expenditures in excess of the original appropriation. However, appropriations in excess of revenues and available fund balance are in violation of the Act. All budget appropriations lapse at the end of each fiscal year.

During the year ended September 30, 2005, the Authority incurred expenditures which were in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Provider Fund			
Developmentally Disabled			
Partial Day	\$ 3,154,166	\$ 3,169,573	\$ 15,407
Mentally Ill - Adult			
State Inpatient	840,950	887,728	46,778
Community Inpatient	648,318	649,571	1,253
Partial Day	862,043	899,413	37,370
Consumer Operated	113,545	176,898	63,353
Board Administration	2,014,953	2,172,488	157,535
Affiliation Fund			
Managed Care Operations	47,917,528	48,612,765	695,237

Substantially all of the \$63,353 variance in the Provider Fund's consumer operated functional category is the result of the Authority's budgeting practices. For capital expenditures exceeding \$5,000, the Authority budgets for and will be reimbursed over the useful life of the asset as opposed to the year of acquisition. The full expenditure is charged to the fund during the year of acquisition.

The \$695,237 variance in the Affiliation Fund was substantially offset by known but unbudgeted revenues.

The \$135,377 deficit fund balance in the Affiliation Fund is the result of no State funding for capital expenditures exceeding \$5,000. The Authority will be reimbursed for these expenditures over the useful life of the asset as opposed to the year of acquisition.

NOTE C - CASH AND INVESTMENTS

At September 30, 2005, the Authority's cash and cash equivalents and investments include the following:

	<u>Financial Statement Classification</u>		
	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Total</u>
Cash on hand	\$ 3,654	\$ -	\$ 3,654
Bank deposits	3,623,235	543,174	4,166,409
Investments	<u>3,560,849</u>	<u>-</u>	<u>3,560,849</u>
	<u>\$ 7,187,738</u>	<u>\$ 543,174</u>	<u>\$ 7,730,912</u>

Custodial Credit Risk - Deposits

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Bank deposits	<u>\$ 4,447,404</u>	<u>\$ 4,166,409</u>

In the event of a bank failure, the Authority's deposits may not be returned to it. As of September 30, 2005, \$3,947,404 of the Authority's bank deposits were uninsured.

Investments

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

The investments held by the Authority and their maturities are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Current</u>	<u>1-5</u>	<u>More than 5</u>
Money Market funds	<u>\$ 3,560,849</u>	<u>\$ 3,560,849</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTES TO FINANCIAL STATEMENTS - Continued

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The Authority's investment in the money market funds was rated Aaa by Moody's Investors Services.

NOTE D - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	September 30, 2004	Additions	Retirements	September 30, 2005
Vehicles	\$ 698,310	\$ 119,602	\$ (93,729)	\$ 724,183
Computer equipment	230,156	164,670	(75,000)	319,826
Furniture and fixtures	372,716	-	(8,240)	364,476
Residential homes and improvements	<u>1,043,690</u>	<u>15,581</u>	<u>-</u>	<u>1,059,271</u>
Total depreciable assets	2,344,872	299,853	(176,969)	2,467,756
Less accumulated depreciation	(1,011,849)	(217,978)	162,360	(1,067,467)
Construction-in-process	92,600	63,220	(92,660)	63,160
Land	<u>147,500</u>	<u>-</u>	<u>-</u>	<u>147,500</u>
Total capital assets, net	<u>\$ 1,573,123</u>	<u>\$ 145,095</u>	<u>\$ (107,269)</u>	<u>\$ 1,610,949</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Housing Services	\$ 44,526
Unallocated	<u>173,452</u>
	<u>\$ 217,978</u>

NOTE E - NON-CURRENT LIABILITIES

Changes in non-current liabilities during the year ended September 30, 2005 were as follows:

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
Notes payable	\$ 622,265	\$ -	\$ 23,186	\$ 599,079	\$ 23,442
Accrued annual leave*	<u>513,183</u>	<u>21,662</u>	<u>-</u>	<u>534,845</u>	<u>534,845</u>
	<u>\$ 1,135,448</u>	<u>\$ 21,662</u>	<u>\$ 23,186</u>	<u>\$ 1,133,924</u>	<u>\$ 558,287</u>

*Accrued annual leave new debt represents the net effect of additional sick and vacation days earned and used during the year.

NOTES TO FINANCIAL STATEMENTS - Continued

Notes Payable

Promissory note payable to bank; with first six installments to be interest only; subsequent monthly payments of \$1,649, including interest rate at 3.77%; balance of principal due at maturity; maturing July 7, 2014. \$ 264,949

Promissory note payable to bank; with monthly payments of \$2,156, including interest rate at 3.77%; balance of principal due at maturity; maturing July 3, 2013. 334,130

Total notes payable 599,079

Less current portion (23,442)

\$ 575,637

Interest expense was \$23,384 for the year ended September 30, 2005.

Future minimum maturities are as follows:

<u>Years Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 23,442	\$ 22,218	\$ 45,660
2007	24,341	21,319	45,660
2008	25,275	20,385	45,660
2009	26,245	19,415	45,660
2010	27,252	18,408	45,660
2010-2014	<u>472,524</u>	<u>52,147</u>	<u>524,671</u>
	<u><u>\$ 599,079</u></u>	<u><u>\$ 153,892</u></u>	<u><u>\$ 752,971</u></u>

Accumulated Accrued Benefits

Employees of the Authority accumulate days of sick and vacation leave. The amounts are calculated based on each employee's total accumulated hours at their current pay rate. The accrued vacation liability is valued at 100% of each employee's accrued hours at their pay rate on that date. A maximum of 240 hours vacation may be accrued by any employee. The accrued sick time liability is valued at one-quarter of each employee's accrued hours (with a maximum of 320 hours) at their pay rate on that date. These liabilities at September 30, 2005 are estimated at \$534,845.

NOTE F - OPERATING LEASES

The Authority leases various facilities and equipment under operating leases with terms ranging from month-to-month to multiple year agreements with options for extensions. Total rent expense for the period ended September 30, 2005 was \$977,917. Future minimum lease payments are as follows:

<u>Years ending</u> <u>September 30,</u>	
2006	\$ 526,253
2007	383,827
2008	212,067
2009	130,403
2010	<u>68,469</u>
	<u>\$ 1,321,019</u>

NOTE G - RETIREMENT PLAN

The Authority provides 401(a) Money Purchase Plans for both union and non-union employees who have met the respective employment requirements. Total pension contributions for the year ended September 30, 2005 was \$442,254.

Non-Union Employees

Under the plan, the Authority and its non-union employees contribute 12.2% and 6.2% of qualified compensation, respectively. Authority contributions are fully vested immediately.

Union Employees

Under the plan, the Authority contributes an amount up to 8.17% of qualified compensation. Authority contributions are fully vested after four years of service. Investment earnings forfeited by participants who terminate employment prior to becoming fully vested are used to reduce the Authority's annual contribution requirement.

Additionally, the Authority provides a Deferred Compensation Plan and Trust under Section 457 of the Internal Revenue Code of 1986, as amended, which covers all employees meeting certain employment requirements. Participants may contribute any amount as permitted through the plan.

NOTE H - PROFESSIONAL AND CONTRACTUAL SERVICES

The Authority contracts with certain organizations to provide mental health programs and various other professional and contractual services. Organizations receiving in excess of 10% of Provider Fund subcontractor expenditures in accordance with such contracts are listed below:

Northern Management Service	\$ 1,793,265
Summertree Residential Services	3,026,777

NOTE I - CONTINGENT LIABILITIES

The Authority received a significant amount of their revenue from various Federal and State assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. The compliance audits of these programs for or including the year ended September 30, 2005 and prior may not have all been conducted. Accordingly, the Authority's compliance with the program requirements may be established at some future date.

The Authority has received the results of an audit conducted by the Michigan Department of Community Health ("MDCH") of its predecessor Antrim-Kalkaska Community Mental Health Services Board for the years ended September 30, 1999 through 2001. Based on this audit, MDCH has requested that the Authority return \$819,482. The Authority intends to vigorously negotiate a reasonable settlement substantially less than the State's request and which would not be material to the financial statements. However, it is reasonably possible that a liability in an amount material to the financial statements has been incurred. The amount of such liability is contingent on the outcome of future events and is not currently subject to reasonable estimation. Accordingly, no liability has been reported.

NOTE J - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a member in the Michigan Municipal Risk Management Authority ("MMRMA") for risk of loss relating to its property and general liability (except auto liability and vehicle physical damage).

The MMRMA is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the MMRMA is to administer a risk management fund, which provides members with loss protection for general and property liability.

The Authority has joined with numerous other governmental agencies in Michigan as a participant in MMRMA's "State Pool". Members of the State Pool do not have individual self-insured retention amounts other than a \$500 deductible per occurrence of liability coverage and a \$250 deductible per occurrence of property coverage.

State Pool members' limits of coverage (per occurrence) are \$5 million for liability and about \$350,000 for property. If a covered loss exceeds these limits or, if for any reason, MMRMA's resources are depleted, the payment of all unpaid losses is the sole obligation of the Authority.

The Authority carries commercial insurance for all other risks of loss including auto liability, vehicle physical damage, workers' compensation, liability and health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

NOTE K - MANAGED CARE RISK FINANCING

The Authority established an Internal Service Fund for the purpose of financing risk of loss under the managed care contract. The Authority is exposed to two layers of risk: All of the first 5% of costs in excess of allocations and half of the second 5% of costs in excess of allocations, for a total potential annual loss of 7.5% of allocations. All amounts remaining in the Risk Management Fund, including related interest earnings, are restricted/reserved for the financing of losses under the managed care contract.

The Authority's policy has been to maintain, to the extent prudent and possible, a risk fund balance equal to its maximum exposure in a single year, i.e. 7 1/2 % of the Authority's annual allocation. The risk exposure currently exceeds \$3.5 million for the Affiliation Fund and \$390,000 for the Provider Fund.

During 2005, in an effort to increase the risk fund balance to more adequately protect against a single year catastrophic loss, the Authority paid \$770,658 from the Affiliation Fund (Medicaid funds) and \$100,000 from the Provider Fund (State General funds) to the Risk Management Fund.

The ultimate amount of allowable managed care risk is subject to the outcome of future events, including actual future losses under the managed care contract and approval of the Michigan Department of Community Health ("MDCH"). Should losses not develop as estimated or the MDCH disallow some of the amount set aside, then such unused/disallowed amount, plus interest, would be returned to MDCH.

REQUIRED SUPPLEMENTAL INFORMATION

North Country Community Mental Health

BUDGETARY COMPARISON SCHEDULE FOR THE PROVIDER FUND

For the Year Ended September 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
Revenues					
Department funding	\$ 25,456,377	\$ 25,576,084	\$ 25,020,807	\$ 119,707	\$ (555,277)
Local match	1,029,152	1,026,082	1,022,052	(3,070)	(4,030)
Reimbursements	866,492	593,697	689,549	(272,795)	95,852
Earned revenue	134,304	221,287	246,649	86,983	25,362
Grants	245,160	231,272	229,004	(13,888)	(2,268)
Total revenues	27,731,485	27,648,422	27,208,061	(83,063)	(440,361)
Expenditures					
Developmentally Disabled					
State Inpatient	70,975	6,470	-	64,505	6,470
Residential	9,413,562	9,390,530	9,282,599	23,032	107,931
Outpatient	1,050,073	952,530	893,475	97,543	59,055
Partial Day	3,179,928	3,154,166	3,169,573	25,762	(15,407)
Case Management	1,524,295	1,536,256	1,503,424	(11,961)	32,832
Mentally Ill - Adult					
State Inpatient	516,430	840,950	887,728	(324,520)	(46,778)
Community Inpatient	618,889	648,318	649,571	(29,429)	(1,253)
Residential	1,619,898	1,593,562	1,503,160	26,336	90,402
Outpatient	2,343,065	2,383,837	2,335,063	(40,772)	48,774
Partial Day	850,224	862,043	899,413	(11,819)	(37,370)
Case Management	847,475	833,415	784,727	14,060	48,688
Consumer Operated	102,000	113,545	176,898	(11,545)	(63,353)
Assertive Community Treatment	826,351	849,646	827,968	(23,295)	21,678
Mentally Ill - Child					
Community Inpatient	26,550	10,000	-	16,550	10,000
Residential	240,223	220,500	208,614	19,723	11,886
Outpatient	1,658,121	1,559,275	1,520,280	98,846	38,995
Case Management	90,316	82,368	78,642	7,948	3,726
Other Services	638,468	596,058	390,911	42,410	205,147
Board Administration	2,114,642	2,014,953	2,172,488	99,689	(157,535)
Total expenditures	27,731,485	27,648,422	27,284,534	83,063	363,888
REVENUES OVER (UNDER) EXPENDITURES					
Fund balance, beginning of year	-	-	(76,473)	-	(76,473)
Fund balance, end of year	2,398,073	2,398,073	2,398,073	-	-
	\$ 2,398,073	\$ 2,398,073	\$ 2,321,600	\$ -	\$ (76,473)

North Country Community Mental Health

BUDGETARY COMPARISON SCHEDULE FOR THE AFFILIATION FUND

For the Year Ended September 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
Revenues					
Department funding	\$ 46,845,400	\$ 46,845,400	\$ 47,531,652	\$ -	\$ 686,252
Local match	831,194	831,194	819,584	-	(11,610)
Other revenue	240,934	240,934	221,232	-	(19,702)
Total revenues	47,917,528	47,917,528	48,572,468	-	654,940
Expenditures					
Managed care operations	47,917,528	47,917,528	48,612,765	-	(695,237)
REVENUES OVER (UNDER) EXPENDITURES					
Fund balance, beginning of year	-	-	(40,297)	-	(40,297)
Fund balance, end of year	-	-	(95,080)	-	(95,080)
	\$ -	\$ -	\$ (135,377)	\$ -	\$ (135,377)